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APRIL 10, 1990
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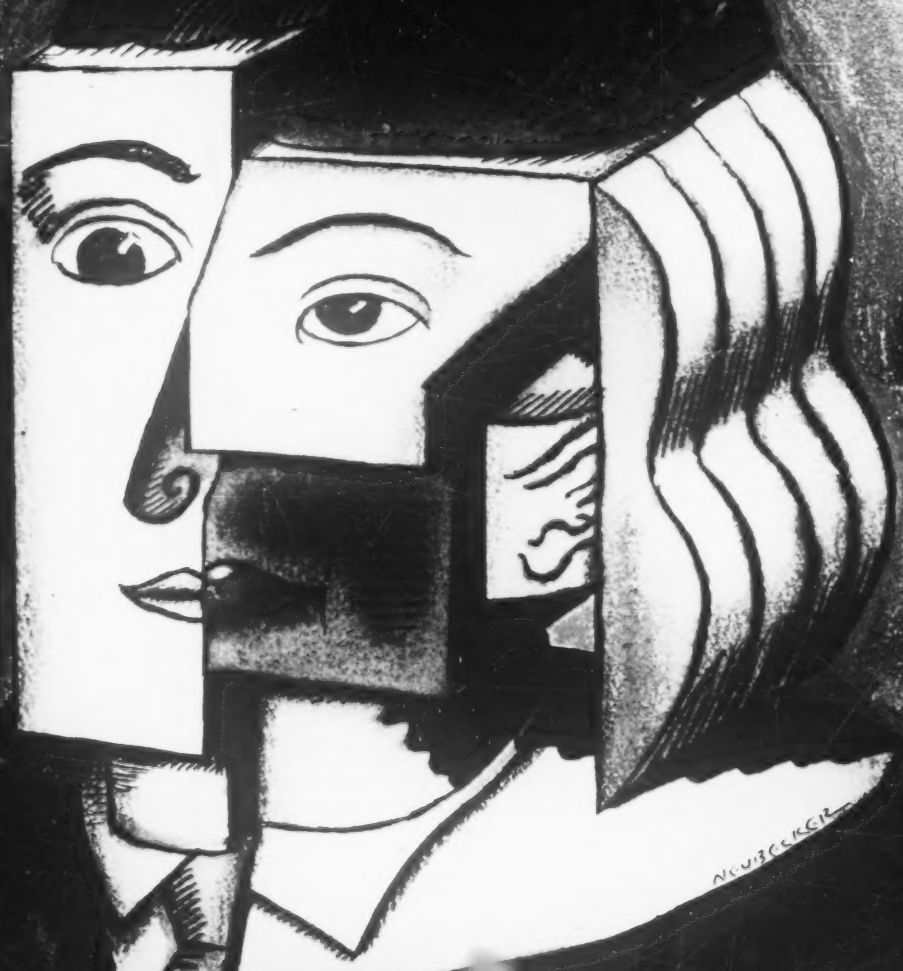
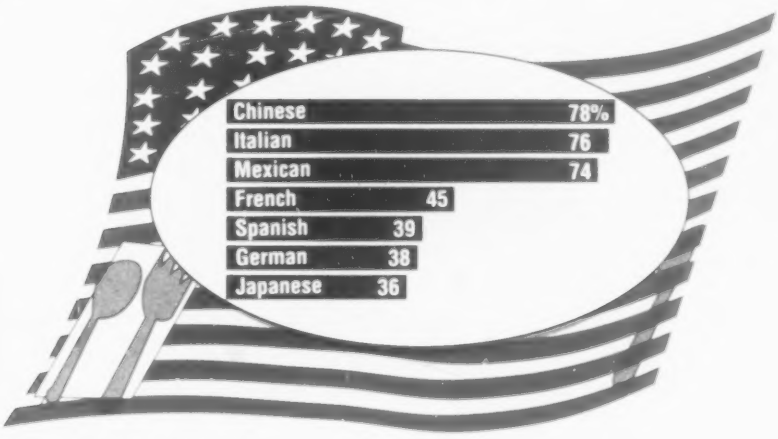
RESTAURANT BUSINESS



THE CHANGING WORK FORCE

BUSINESS BAROMETER

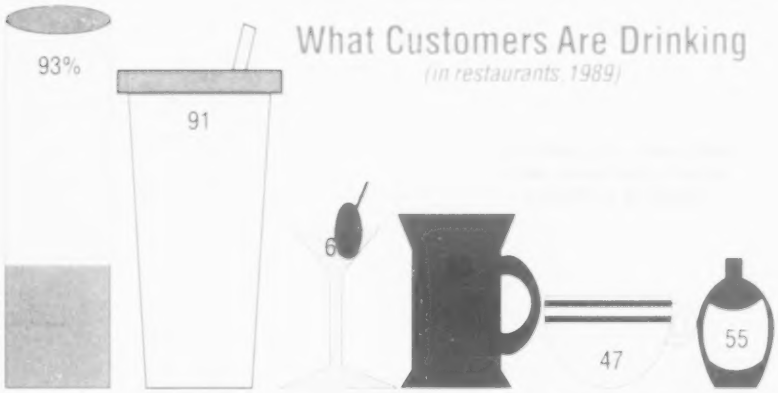


Source: National Restaurant Association, "The Market for Ethnic Foods, 1989"

"The broad appeal of Chinese, Italian, and Mexican dishes," says the NRA, "suggests that they have been fully assimilated into the U.S. culture." French, Spanish, German, and Japanese cuisines apparently rated high because of the pluralistic nature of U.S. society.

What Customers Are Drinking

(in restaurants, 1989)

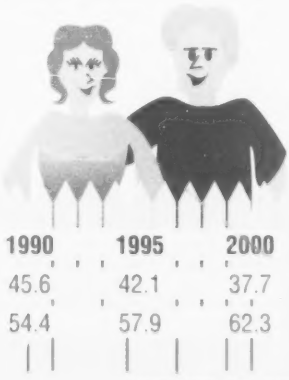


Source: The Research Advantage Inc., "Taking the Pulse of Today's Dining Out Patron"

Further results of the study show that while men and women are equally likely to order fruit juices or drinks, more men order alcoholic beverages. In addition, caffeinated usage appears strongest in the Midwest, while decaffeinated usage is strongest in the East.

Empty Nesters Growing

(% of all married couples)



	1990	1995	2000
With children	45.6	42.1	37.7
Without children	54.4	57.9	62.3

Charts by Peter K. Niceberg

Source: American Demographics

The number of married couples with children under 18 will drop by 12%—from 24 million in 1990 to 21 million—by 2000. Married couples aged 45 to 64—"empty nesters"—will grow by 40%.

RESTAURANT BUSINESS

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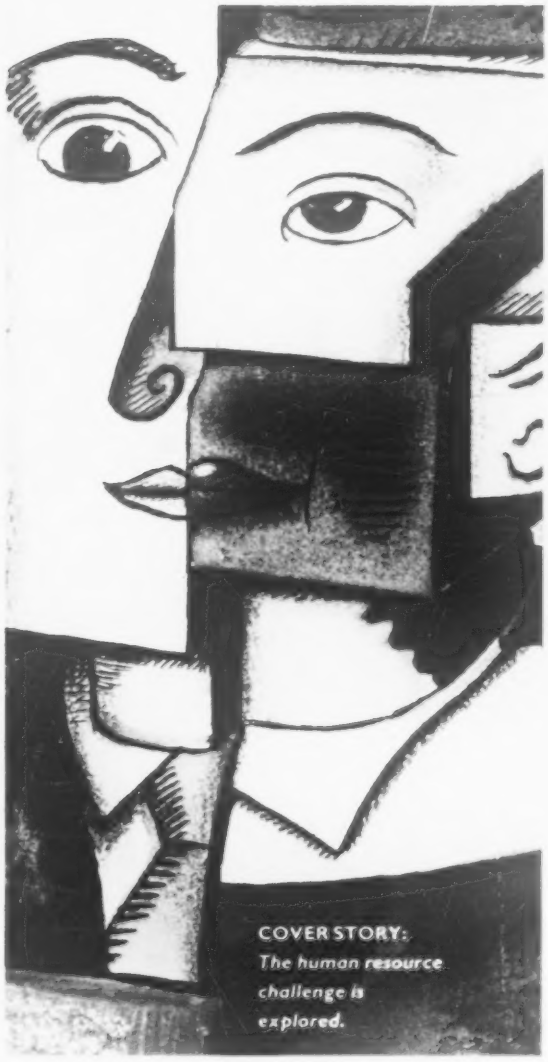

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Cover illustration by Robert Neubecker

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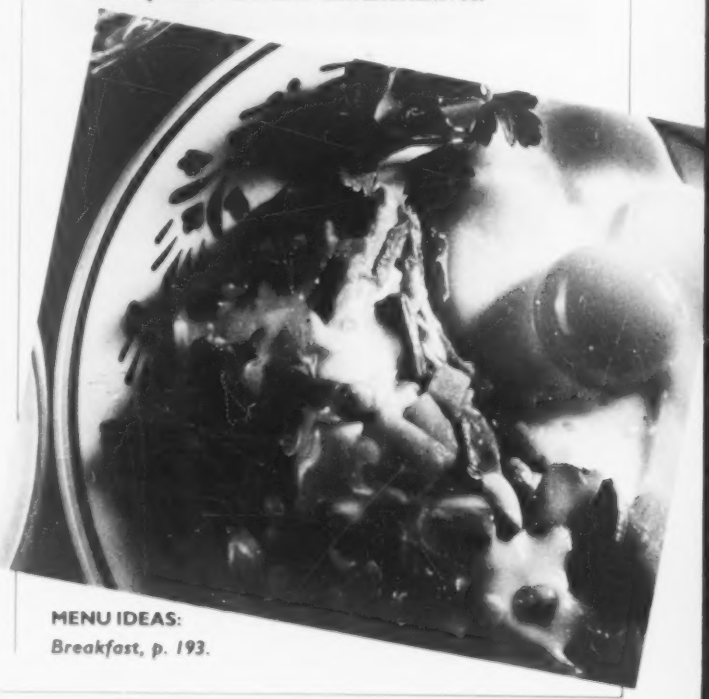
Reprints of the **1989 RESTAURANT GROWTH INDEX** and the **1990 MAJOR FORCES IN FRANCHISING** are available for $5 per copy. Direct inquiries to Editor Peter Berlinski, *Restaurant Business*, 633 Third Ave., New York, NY 10017.

IN THE NEXT ISSUE

COVER STORY **LEADERSHIP AWARDS.**
Once again, *RB* honors those leaders who have proven themselves both in their foodservice success and in their industry involvement. This year, the editors are pleased to honor the following six winners: Jack Galione, president, Corporate Food Services Inc.; Walter Conti, proprietor, Conti's Cross Keys Inn; Jack Goodall, president/CEO, Foodmaker Inc.; William Hulett, president, Stouffer Hotel Co.; George Berkowitz, president, Legal Sea Foods Inc.; and Jackie Trujillo, vice chairman, Harman Management Corp. Each winner will be profiled in depth.

MARKET REPORT **ICE CREAM/YOGURT.**
Between 1986 and 1989, the frozen yogurt category quadrupled in size, while the product has been added to virtually every ice cream shop's menu board. Not long ago, ice cream chains denounced frozen yogurt as a fad. Now, most offer it.

MENU IDEAS **PRODUCE.**
From grilled vegetables in a tortilla to braised celery parmesan, produce offers operators low-cost, healthy entree and side-dish alternatives.



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Analysts See Hotels' Need For Restaurant Partners

The 1990s will see "more hotel operators thinking about using outside restaurant operators," according to analysts at the sixth annual Lodging Industry Conference sponsored by the accounting firm of Laventhol & Horwath in Dallas recently.

Robert Patterson, Laventhol's national director of foodservice consulting, offered several reasons for the increasing interest in hotel partnerships with restaurants, including:

- The increasing number of new hotels with 150 to 300 rooms;
- The growth of properties large enough to require full-service restaurants, but too small to afford the physical plant and equipment needed; and
- The fact that having a restaurant operation with an established name "lends credibility to a hotel project in the eyes of lenders."

Vincent Orza, chairman and president of Oklahoma City, OK-based Eateries Inc., stressed that such restaurants will require separate entrances and signage, as well as competitive prices.

"People tend to think of hotel food as being pheasant served under glass," Orza said. "At our hotel restaurants, we sell customers what they want rather than what the chef wants to sell, which is what most hotels do."

Analysts also produced the results of a Laventhol & Horwath study showing that all-suite hotels profit more when service is limited.

When foodservice other than free continental breakfasts is introduced, the analysts noted, profit margins begin to decline.

The study was based on financial reports of nearly 100 all-suite hotels.

Those with restaurants and room rates above $65 per night lose about $600 per room per year, they found. But those with limited service and nightly rates of less than $65 net approximately $500 per room, per year.

–Don Nichols

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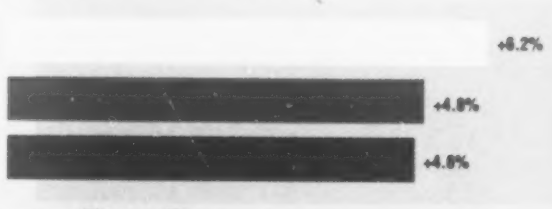
PERCENT CHANGE IN CPI



Food-at-Home, Food-Away-From-Home and All Items Dec. '89 vs. Dec. '88

As it has through 1989, the December Consumer Price Index (CPI) for Food–At–Home (FAH) outpaced Food–Away–From–Home (FAFH), 6.2% to 4.8%. Dairy products led all food categories in price increases.

The percent change in FAFH continues to be lower than that in FAH due to foodservice operators' difficulty in passing along price increases. Despite the shortage and skyrocketing costs of tomatoes in January, for example, Wendy's and McDonald's both announced they would absorb the loss rather than reduce coverage or increase menu prices.

SOURCE: U.S. Department of Commerce, Bureau of Labor Statistics

'I Used to Be Rich...(CLICK)...I Used to Be Rich...'

He's danced with Liberace, babysat for Stevie Wonder's children, and done an acting stint in Oliver Stone's movie, *Wall Street*. In fact, he still found the time to perform at high-roller casino parties and deliver room-service orders to guests at Resorts International Casino Hotel in Atlantic City.

Not bad for a 5-ft., 210-lb. robot.

The robot, named Rich, (short for Resorts International Casino Hotel), is now temporarily out of commission. His former operator, Wayne Brown, has left Resorts International to become entertainment coordinator at Donald Trump's Taj Mahal Casino Resort, which opened this month in Atlantic City (see Insights, page 28).

During Brown's seven years as the robot's operator, he helped Rich achieve celebrity status. Not only did Rich entertain guests as the "Ambassador of Good Will," but he toured New Jersey grade schools as part of Nancy Reagan's "Say No to Drugs" campaign. He also helped children learn library skills by performing in a rock video that was distributed in New Jersey libraries, and teamed with New Jersey Governor Thomas Kean's in a "Fight Illiteracy" program.

ILLUSTRATION BY MURAT KARLIN

Brown says leaving Rich was difficult. "He and I were joined at the belly button."

Brown invested quite a bit of himself in the 5-ft. wonder.

Among other things, he created Rich's voice, look, and family tree (his mother is a Hoover, and his father, a Kenmore vacuum cleaner).

Brown was responsible for Rich's every move. He controlled the robot's action by radio. He used to hide behind bushes, or sit inconspicously in a bar so Rich could interact with the guests without them noticing him.

Although he does have a roving robot in mind for the Taj Mahal, Brown is concerned about Rich.

"I hope they find someone to continue his legacy," he says. "I've got a little Rich still in me."**–Lori Barker**

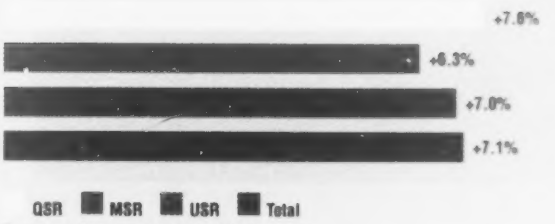
Just-Released Report Profiles Business Travelers

Business travelers dine on fast food nearly 25% of the time, according to the recently released "Runzheimer Business Traveler Meal Survey, 1989."

The survey, which reports on the eating habits of more than 2,500 business travelers in the U.S. and Canada, also found that:

- 40% of business travelers skip breakfast "on occasion";
- When business travelers do order breakfast, it usually consists of juice, coffee or tea, eggs, bacon or sausage, and toast. Lunch consists of soup, sandwich, and soft drink. Dinner is beef or fish, salad, potato or rice, and coffee or tea. Less than 25% of respondents said they "often" have a cocktail with dinner;
- Female business travelers are nearly five times more likely to order room service; and
- Men are twice as likely as women to order an entree salad for dinner. Women are more likely to order poultry and shellfish. **–Howard Riell**

CUSTOMER EXPENDITURES



Percent Change in Fall '89 Quarter Expenditures vs. Year–Earlier Period

Customer Expenditures for the quarter ended November 1989 grew 7.1% versus the same period in 1988.

Quick–Service Restaurants led all segments with a 7.6% rise in expenditures. Expenditures at UpScale Restaurants (USR) surged 7.0%, but this performance is modest given the 5.5% rise in traffic. Meanwhile, MidScale Restaurants (MSR) posted the smallest increase during the fall quarter, 6.3%, on a 2.0% increase in traffic.

SOURCE: CREST/NPD Research

Shapiro Brings Hoexter's From Manhattan To Boca Raton

A chic New York City restaurant that catered to trend setters on Manhattan's Upper East Side from 1979 to 1985 has resurfaced in Boca Raton, FL.

Robert Shapiro recently reopened Hoexter's Market in swanky Crocker Center. To head up his kitchen, Shapiro chose Norman Van Aken, the well-known chef who authored "Feast of Sunlight," a cookbook based on his 17 years of culinary experience.

The 9,000-sq.-ft. restaurant serves beef that comes from Rocky Mountain cattle raised on mountain water and organic grains.

A variety of fresh fish and shellfish is also available. In addition, Maine lobster is flown in daily.

Also available at an elegant raw bar are such items as oysters, mussels, and beluga caviar.

Besides the Manhattan Hoexter's, Shapiro has owned several other popular New York City restaurants, including Uzies, Texarkana, and Vanessa. **–Don Nichols**

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K.P. Was Never Like This Before...

Military dining halls have changed their image over the years. Instead of offering a soggy vegetable medley or creamed chipped beef, they are now offering steak, lobster, shrimp, and crab legs.

"Dining halls no longer reflect what's depicted on television," says Linda Yarrow, chief of clinical dietitians at Fort Riley's Irwin Army Community Hospital, in Fort Riley, KS.

In fact, the Army has been working hard to encourage dining halls to promote nutritional information and satisfy soldiers' need for healthy dining.

For instance, during National Nutrition Month in March, 15 dining halls at Ft. Riley's military community competed in a contest to discover which offered the most nutritious fare.

"We make sure they offer a nonfried food when they have fried food, that they supply both skim and low-fat milk, and serve food items without margarine or salt," explains Yarrow. "Our dining halls ocassionally offer crab legs and lobster meals when our budget allows for it, and shrimp is an entree every third week," Yarrow adds.

–Lori Barker

Clark Hopes Restaurant Will Rock

Dick Clark is the latest celebrity to try his luck in the restaurant business.

The first American Bandstand Grill opened recently in Miami at the Bayside Marketplace. Others are planned around the country.

The idea is to build quite a few of these, says Hank Brub, senior vice president of development at Harmon Entertainment Restaurants Inc. in Secaucus, NJ. "We're already looking at two other sites." The real estate arm originally developed the 250-seat restaurant in a joint venture with Clark, long time host of "American Bandstand" and other shows.

"This isn't a name-buying deal," says Brub. "Dick is very active in the business. He has been careful to make sure everything is the way he wants it."

"Remember, he's never licensed the American Bandstand name before," he adds. "He's taking good care of a prized possession."

At the Miami Grill, guests dine on American cuisine, including Philadelphia cheesesteak sandwiches and hamburgers.

Per-person checks average $7 to $10 at lunch, and $10 to $12 at dinner.

Not surprisingly, the food isn't the only draw; plenty of rock 'n' roll nostalgia is dished up as well. Guests can view clips of Clark's 35-year run on American Bandstand on video monitors.

The walls are plastered with memorabilia Clark collected during his decades in the music industry, including Michael Jackson's glove, Elvis Presley's cape, and Elton John's shoes.

"We've been asked why we chose Miami instead of Philadelphia or Los Angeles," Brub says.

"We think Miami will give us the most initial exposure," he adds. "The city is an international melting pot; it's known for tourism; and the weather is basically good all year, which is important because we have two open-air balconies."

Diners can make their own music video or cassette tape in an on-site recording studio, and Clark himself will introduce their performance with a prerecorded, generic message. –Don Nichols

WILLOWBROOK GOES FOR LAUGHS
The Willowbrook Restaurant in Portland, OR, has found a humorous way to let its customers know it specializes in fresh, home-style food and offers group promotions.

Texas Operators Help Kids Continue Their Education

Operators in Corpus Christi, TX, are befriending and employing troubled Hispanic youngsters who have either dropped out of high school or are thinking about it.

It's all part of a mentorship program jointly sponsored by the Coastal Bend Restaurant Association and the LULAC (League of United Latin American Citizens) Education Services Center. LULAC matches the youngsters with local restaurateurs who give them jobs in the hope that they will come to value the importance of an education.

"We're trying to get them to focus on their long-term goals," says Roy de los Santos, director of the LULAC center.

"Many of these kids have parents who can't give them all the material things other kids have," de los Santos adds, "so the kids try to get them themselves, even if it means quitting school."

The youths continue their studies while holding down their jobs.

LULAC asks the participating employers to provide incentives.

When they're hired, each kid is told he will be laid off if he doesn't receive his high school equivalency diploma within a specified period.

For those participants still in school, employers are asked to reward their educational accomplishments with a variety of bonuses.

For an "A" grade, for example, they might give a student a day off or a cash prize. Various other incentives are designed to cement the desire to stay in school and succeed.
–Don Nichols

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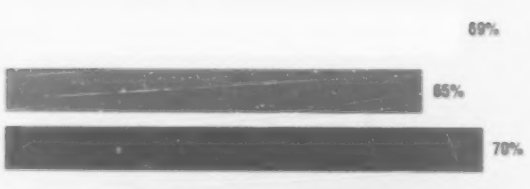
SPECIAL ORDERS ON THE RISE



Proportion of Household Users Ordering in Restaurants

"Light," "low-cal," and "decaf" food products are being used in many more homes today than they were five years ago and being ordered more often in restaurants.

The biggest growth has been in diet soft drinks. Since 1984, the number of those drinking diet soft drinks at home has risen from 28% to 38%. Meanwhile, the proportion of household users who also make a special effort to buy diet soft drinks in restaurants has grown from 62% to 69%.

SOURCE: The Roper Organization

MARKET SEGMENT REPORT

MEXICAN

The popularity of this spicy cuisine has spread nationwide.

By Jacque Kochak

TacoTime's strategy is "Bigger Tacos, Better Burritos, and Best Quality."

As the American appetite for the spicy flavors of Tex-Mex and classic Mexican foods continues to grow, the Mexican segment is becoming a tougher place to do business. But opportunities still abound for the operator who is offering a better product and doing a better job than the competition.

"There's still plenty of room out there for some success stories," says Rodney Allen, vice president of Dallas-based El Chico, a chain of midprice restaurants.

The Mexican segment today is solidly divided into three price-based subsegments. Fast food is dominated by Taco Bell, which far outstrips any of its competition in sheer size and market presence. The midprice subsegment is populated by savvy independents and small chains that are giving the larger Mexican chains a run for their money. Operators in the upscale subsegment, meanwhile, emphasize either authentic regional cooking from the provinces of Mexico or a sophisticated amalgam of American and Mexican cuisines dubbed "Southwestern."

POPULARIZING THE CUISINE. For many years, the Mexican segment was almost totally the province of small independent operators, most often Mexican themselves. Mexican restaurants were often clustered in ethnic neighborhoods in the cities and towns of the Southwest, California, and as far north as Kansas City.

As Mexican food slowly began to break out of those geographic boundaries, chains began to develop and serve as standard-bearers. Louisville, KY-based Chi-Chi's introduced Mexican food to many parts of the country, and PepsiCo's Taco Bell has been a major force for the mainstreaming of Mexican food.

In fact, Taco Bell and smaller Mexican fast-food chains are now in a curious symbiotic relationship. Because of its sheer size and large advertising budget, Taco Bell has been busy teaching unacquainted consumers about its brand of Tex-Mex, an endeavor much appreciated by its smaller competitors.

And Taco Bell welcomes the competition from its smaller cousins as well. "The competition increases customer awareness of the Mexican segment," says vice president of marketing Elliot Bloom.

Now, independents have become important again. "In every market that we're in, we see very good independents doing a dynamite job. They're our competition," says Chi-Chi's vice president of marketing, Glenn Drasher.

Mexican dinner houses have now become so much a part of the mainstream that their competition is no longer limit-

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MARKET SEGMENT REPORT

MEXICAN

ed to other Mexican eateries, Drasher adds. "We're a casual dinner house. We compete against people like Red Lobster, Chili's, and the Olive Garden."

Taco Bell's Bloom concurs. "We're probably 10 times larger than the next-largest Mexican fast-food chain," he says. "We no longer consider a Del Taco our competition. We're starting to scare the big guys. McDonald's is not McPerfect!"

A survey recently conducted by the National Restaurant Association shows just how well accepted Mexican food has become. A full 41% of Americans surveyed say they have eaten Mexican food in the last month, and a whopping 74% say they have tried Mexican food at some time. In fact, Mexican food slightly trails Chinese food and Italian food (which includes pizza) as the most popular ethnic cuisine around.

The Mexican segment is becoming a tougher place to do business, but opportunities still abound.

Chevy's units are bold and boisterous.

The continuing growth of the Mexican segment seems to be partly fueled by what the NRA calls the "casualization" of the American restaurant. Customers increasingly want a more casual, and less expensive dining-out experience, with good food and good value as primary considerations.

In part, the baby boom generation is fueling the trend towards casualization. When the first wave of baby boomers were young working singles, they experimented eagerly with different kinds of restaurants.

Now, they're faced with increasing financial demands as they marry, acquire homes, and have children. And the typical Mexican restaurant is the perfect place to take the family without breaking the budget.

Nevertheless, the Southwest and California continue to be the strongest markets for Mexican restaurants. Although more Mexican restaurants thrive there than any place else, people also eat at Mexican restaurants far more often. Mexican food is not ethnic food there; it's a way of life.

TACO WARS? Giant Taco Bell holds 70% of the Mexican fast-food market, and when the Mexican giant speaks, competitors listen—and react.

Right now, the quick-service portion of the segment is abuzz with talk about Taco Bell's Value Menu, a selection of 59¢ items including a taco, a beef taco, a tostada, nachos, pinto beans and cheese, and a bean burrito. Taco Bell also offers free drink refills. A customer can have lunch for under $1.

Bloom is adamant that the Value Menu is not a loss leader, however. "That's nonsense. We're making money on the Value Menu," he says. "We've cracked the code. We've got a lot of systems that the competition doesn't."

Some Mexican quick-service chains have responded by offering discounted

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MARKET SEGMENT REPORT

MEXICAN

prices, but others are cautious about such a strategy.

"I think that some companies are looking for a quick fix, but, over the long term, discounting doesn't work," says Channing Arnold, director of marketing for Cheyenne, WY-based Taco John International. "Your profits start to erode, then you either watch the business go down the drain, or boost profit by cutting employees or quality. That's no good."

Bloom is also firm in saying that the Value Menu may look like a discounting strategy, but most emphatically is not. "The Value Menu will go on every day for as long as Taco Bell exists," he says. "But the value strategy doesn't work by itself. If we hadn't upgraded the whole business, the Value Menu wouldn't work. Such a strategy wouldn't be successful for everybody."

Taco Bell is, without a doubt, an impressive success story. As recently as 1982, the company was a regional niche player with sales slipping to the tune of 16% a year.

New president John Martin engineered an impressive turnaround, and last year posted sales that increased 21% over the previous year. What is more, transactions were up 34%. And 1989 earnings soared 26% in the first quarter, 60% in the second quarter, 50% in the third quarter, and 33% in the fourth quarter.

Taco Bell now operates 3,080 restaurants, generating more than $2 billion in sales. Since 1982, the company has tripled its number of units and quadrupled its sales. In fact, Taco Bell is now the eighth-largest fast-food chain in the world, says Bloom.

In 1982, Taco Bell had very small, dark units without drive-thru windows. The menu was limited, and no new products were forthcoming. Advertising awareness was minimal. Even the signage wasn't easily recognizable.

Martin commissioned a new logo, built new contemporary-looking restaurants with larger dining rooms, developed new advertising themes, and played toward a mainstream audience. New products followed, and then came the Value Menu. The rest is history.

El Chico's advertising campaign focuses on freshness and value.

Fast food is dominated by Taco Bell, which outstrips its competition in size and market presence.

BANDITOS IN BAJA. Some of the most exciting Mexican concepts around today are the midprice "roadhouses" proliferating in the Southwest and California. They pulse with loud music and draw hordes of customers by offering fajitas and other Mexican specialties at low prices.

"They're real 'banditos in Baja' sorts of places," says one competitor, who admitted to being impressed. The casual border cantina atmosphere is accentuated by cement floors, a little bit of junk, and old beer posters, for example.

The granddaddy of all is said to be Papasito's in Houston, owned by the Pappas family. For competitive reasons, Pappas family members are shy about talking to the press.

A typical Papasito's reportedly posts gross sales of $4 million. The company operates one restaurant in Dallas, one in Austin, and four in Houston.

Less shy about talking to the press is Laura Hum, vice president and director of marketing for San Francisco-based Chevy's Mexican Restaurants, with 18 units in northern California. Some 30 units should be open by the first quarter of 1991, says Hum, with

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northern California continuing to be the focus of expansion.

Chevy's was developed in 1986 by Warren Simmons, also founder of the Tia Maria chain, after he and his family traveled in the Southwest and Mexico investigating different concepts. The units are bold and boisterous, with stucco ceilings, sand-colored walls, a galvanized zinc bar, and seating areas separated by shoulder-high walls of empty beer cases.

The food is the real draw. "Fresh Mex" is the trademark name for the everything-from-scratch menu, and the emphasis on quality is the reason expansion is taking place only within driving distance of the original unit for the immediate future.

The dining room is dominated by "El Machino," a giant tortilla-making contraption that turns out 900 fresh tortillas an hour. If a tortilla is over three minutes old, it is thrown away.

The centerpiece of the menu is mesquite-broiled chicken and beef fajitas, served with guacamole, pico de gallo, and rice and beans. The menu also includes such upscale offerings as quail, seafood specials such as salmon, sea bass, and swordfish, and mesquite-broiled lamb, as well as chiles relleños made fresh daily. Average check is $8 at lunch and $10 at dinner, says Hum, driving average unit volumes over $2.5 million.

In Atlanta, Rio Bravo is also drawing rave reviews. Five units are now open in Atlanta, and the company is building in Nashville and Tampa, FL.

Rio Bravo founder Raymond Schoenbaum notes that Atlanta has become an extremely competitive market for Mexican restaurants as customers have become more and more knowledgeable about the cuisine.

"Believe it or not, in Atlanta there are 195 Mexican restaurants, most of them independents serving inexpensive food," he says. "Then there are about 10 large operations, and a few extremely sophisticated Southwestern-style restaurants serving a blend of Mexican and American cuisine. Yet in the rest of the Southeast, very few Mexican restaurants exist."

The midprice subsegment is populated by savvy independents and small chains.

Taco Bell's Value Menu offers a wide selection of 59¢ items.

GROWING FAST. A strong Mexican chain that is rapidly moving out of its regional base is Taco John, with 450 units strung across the upper Midwest. Plans call for building between 30 and 50 new stores a year for the foreseeable future. As a private company, Taco John doesn't release sales figures. Director of marketing Channing Arnold will say, however, that sales trends are positive.

"We're seeing increases that are nearly double digit," he says. "Being in marketing, I'd like to say that's the reason for the increases, but we've got a lot of new department heads in all disciplines. We're just running the business smarter."

Taco John boasts new vice presidents of operations, purchasing, franchise development, and marketing. As a result, new training programs are in place. The menu has been standardized. A field marketing team has been implemented to help franchisees with their individual needs. New advertising cooperatives are in place. New systems ensure product quality and improve distribution.

The menu has been changed to accommodate a number of chicken alternatives, including tacos, burritos, and taco salads. The company has also stopped building its old modular units, and is experimenting with new building designs with an airy and contemporary look with lighter woods and brass.

Costa Mesa, CA-based AWR II,

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which operates 289 Del Tacos in California and one in Arizona as well as 60 Naugles in California, Utah, Nevada, Illinois, and Missouri, has chosen to confront Taco Bell head-to-head with a number of 59¢ menu items of its own.

When AWR II was first formed by Anwar Soliman, former head of the W.R. Grace Restaurant Group, executives expressed their ambition to grow rapidly and to capture a large share of the Mexican fast-food market.

Now, prices have been lowered on many of the company's best-selling products, and several new 59¢ items have been added, including a crisp taco, a soft taco, a red-chili burrito, a green-chili burrito, and a tostada.

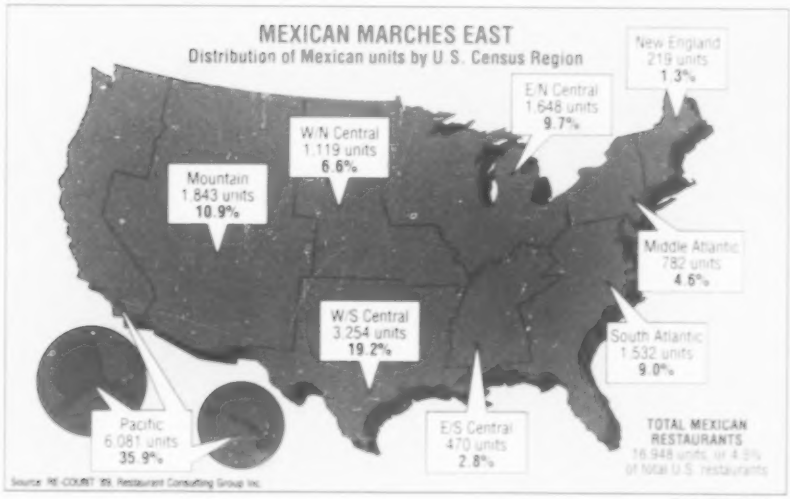
This price-cutting is a reversal of Del Taco's strategy under Soliman, who recently sold the fast-food chain to its four top executives. The new, highly leveraged company was strapped by debt, and interest payments were reportedly eating up profits.

Eugene, OR-based TacoTime International Inc. currently operates 210 units in the U.S. as well as 73 in Canada, 22 in Japan, 2 in Venezuela, and 1 in the United Arab Emirates, for a total of 308. All but 28 are franchised. System-

Operators in the upscale subsegment emphasize authentic regional cooking.

wide sales are projected to reach $99 million in 1990.

Thirty-eight restaurants opened in 1989, nine of those in Canada and 20 in Japan. In 1990, TacoTime will continue to grow in the Northwest and expand into New England, the Rocky Mountain states, northern Maryland, and Pennsylvania. A total of 500 restaurants should be open by 1995, according to Patricia Scarci, marketing communications manager.



TacoTime is definitely among the Mexican fast feeders affected by Taco Bell's Value Menu. "Our strategy is to position TacoTime apart from and above the competition with the slogan 'Bigger Tacos, Better Burritos, and Best Quality.' We want our new theme, 'It's Time for the Best,' to communicate TacoTime's product superiority," says Scarci.

Products now in test for TacoTime include a quesadilla made from a 7-in. pressed, "homestyle" flour tortilla filled with cheddar cheese and a spicy *picante* sauce. Beef or chicken can be added for variety.

Quesadillas are currently selling at 3.4% of gross sales with in-store promotional support, says Scarci. A television campaign was scheduled to run in mid-March; if the product performs as expected, quesadillas will be rolled out nationally in April and May.

Scarci says that a new combination lunch and dinner platter called the Mexi-Meal is also being tested. Each Mexi-Meal includes either a chicken chimichanga, beef chimichanga, or Casita Burrito served with Mexican rice, refritos, chips, a side salad, and a whole jalapeño pepper. She adds that testing has been underway since January, and platter sales are accounting for 4.9% of gross sales in test stores.

Though small in comparison to the major Mexican fast-food chains, Lincoln, NE-based Amigos draws good reports from competitors in its trade area. And Amigos doesn't intend to stay small forever; plans call for adding 150 units over the next three to five years, on top of the existing base of 40 units. All will be company-owned.

Amigos units are heavily concentrated in Nebraska, as well as Colorado, Kansas, and South Dakota. Expansion this year will be concentrated in Kansas and Colorado.

At Amigos, customers place orders, but are served by a waiter. Their meals come on china accompanied by silverware. Customers enjoy the convenience of a drive-thru window and the value of fast-food pricing, but with the ambience and comfort of a restaurant.

The menu is also somewhat more varied than that offered at the typical Mexican fast-food outlet. A Bambino Meal with an entree, crispos, and an ice cream cone draws families with children at the bargain price of 79¢.

Units seat from 80 to 150 people. Most are freestanding, but some are located in mall food courts, where paper

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plates and plastic forks replace the china and silverware. Wine and margaritas are served where legal.

Average check is about $3.50, and average unit volume is about $750,000, says Joe Field, the company's new vice president of marketing. Some units do as much as $1 million, he adds, and the company's aim is to eventually build all unit volumes to that level.

Several small Southwestern chains have drawn much attention with the success of their "patio concepts." Both San Antonio, TX-based Taco Cabana and Houston-based Two Pesos feature extensive outdoor seating, a dining room with one wall open to the patio, and broad menus of high-quality, freshly prepared Mexican specialties served at fast-food prices.

In fact, the two concepts are so similar that until recently they were embroiled in a lawsuit. The trade-dress misappropriation suit was won by Taco Cabana in 1988, costing Two Pesos over $3 million.

The patio concepts have drawn attention because of their high volumes, but many observers have questioned whether they could succeed in colder climes. Apparently, their success is not insured even in warm climates. Two Pesos has encountered problems, and a similar concept called Alfonso's recently declared bankruptcy.

Taco Cabana continues to do well, says Richard Cervera, executive vice president. The privately owned company doesn't divulge systemwide sales, but Cervera says sales have been on an upward trend since last October, partially reflecting the recovering Texas economy. The company is also consolidating its position in existing markets.

Taco Cabana now operates 29 company-owned units and franchises three. That ratio is expected to change as franchising activity picks up with expansion into Arizona, Nevada, northern California, and Los Angeles. Corporate expansion is taking place primarily in South Texas.

The company is experimenting with a somewhat smaller building, which at 2,700 sq. ft. is 25% smaller. Food is still prepared entirely on premises.

Two Pesos operates 25 company units as well as one franchised unit and one licensed unit. The company is looking at expanding by four or five restaurants during the next 15 months, primarily in the Southwest.

Expansion has slowed as the company works to restructure its internal operations, says former president Tom Dietrich, who left the company shortly after this interview. Founder Marno McDermott has taken over Dietrich's responsibilities.

Two Pesos' total systemwide sales will reach about $40 million in 1990, says Dietrich. Unit volumes average about $1.5 million.

The newest development at Two Pesos is Two Pesos II, a double-drive-thru concept, which requires smaller parcels of property and one-third the investment. The smaller units are expected to generate half the volume of a full Two Pesos, however.

ALL ABOUT CHI-CHI'S. Louisville, KY-based Chi-Chi's, a subsidiary of San Diego's Foodmaker Inc., continues to reign as the country's largest mid- to upscale Mexican restaurant chain.

"We're a private company and I can't discuss specifics, but we ended our fiscal year in very good shape," says Drasher. "We hit our projections."

The company's most significant news is the development, testing, and rollout of a new product line dubbed "Tex-Mex." The first entrees in the line,

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About 41% of Americans have eaten Mexican food in the last month, and 74% have tried it.

Taco Bell now operates more than 3,000 restaurants.

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Steak or Chicken El Paso, are spicier than the existing Sonoran entrees.

Steak El Paso sells for $8.45, and Chicken El Paso for $7.95. Another new entree, the Lone Star Platter, is expected in the spring. The grilled chicken or steak strips topped by sauteed green peppers and onions and smothered with pepper-Jack cheese will sell for $7.95.

Drasher also notes that management turnover at Chi-Chi's is at an all-time low, a development that he attributes to a changed company culture following the appointment of Hal Smith as president.

California-based Acapulco Mexican Restaurants, a subsidiary of New York City-based Restaurant Associates, could be poised for stepped-up expansion following acquisition of 85% of the company by Tokyo-based Kyotaru Co.

Restaurant Associates has been hobbled by $80 million in debt from its 1988 leveraged buyout, and expansion had been put on the back burner.

Kyotaru Co. owns hundreds of restaurants in Japan, as well as a handful in the U.S. Among those are Torrance, CA-based El Paso Cantina, a chain of nine full-service Mexican restaurants that many speculate may be absorbed into the Acapulco chain. That would give Acapulco Mexican Restaurants a total of 50 units.

Kyotaru Co. has indicated to Restaurant Associates that the company will continue to be run autonomously, says Grant Beresford, Acapulco Mexican Restaurant's director of marketing. Acapulco now operates 41 restaurants—40 in California and one in Portland, OR. Two more restaurants will open in 1990.

As customers have grown increasingly sophisticated about Mexican food, Acapulco has completely reshaped its menu, focusing more on specialty offerings. The change is also a response to increased competition.

"We're getting away from the basic generic combo plates," says Beresford. "Our customers dine out an average of 16 times a month. Four of those times, they go to a Mexican restaurant. If they eat a taco, beans, and rice at our restaurant, they can go somewhere else and get about the same thing. This is an opportunity to differentiate."

The change has spurred a 5% increase in average checks, which in turn has increased per-store averages and gross sales.

The menu changes were implemented systemwide in September, and a new advertising campaign began the first of this year. Acapulco is now planning a series of food festivals, with additional menu items, that will run six to eight weeks and focus on the foods of a specific region.

Dallas-based El Chico Restaurants, which has long specialized in family-oriented, midprice dining, is stepping up its franchising efforts as it continues expanding into the Midwest and the Southeast. The company currently operates 57 company-owned restaurants, 29 franchised units, and four "concept" restaurants.

Midwestern expansion will include openings in Kansas, Illinois, Ohio, and Missouri. Southeastern restaurant openings will take place in North and South Carolina, Georgia, Tennessee, Kentucky, and Florida.

Like Chi-Chi's Drasher, El Chico's vice president of marketing Rodney Allen insists that the toughest competition for midprice Mexican restaurants these days is coming from independents. "There are a lot of very intelligent, very sophisticated operators out there," he says.

El Chico's systemwide sales in 1989

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The Southwest and California continue to be the strongest markets for Mexican restaurants.

THE TOP MEXICAN CHAINS

COMPANY	1989 SYSTEMWIDE SALES	NO. UNITS
Taco Bell PepsiCo	$2 billion	3,000
Chi-Chi's Foodmaker Inc.	$425 million*	195
El Torito ARA	$250 million	125
Del Taco/Naugle's ARA	$200 million	350
Taco John	$166 million*	450
El Chico	$112 million	90
TacoTime	$99 million	308

*RB estimate

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This is a vital, challenging segment with plenty of opportunity but also plenty of risk.

Chi-Chi's new "Tex-Mex" entree line is spicier.

were up to $112 million from $107 million in 1988, although only two new units were opened.

Allen notes that as El Chico expands, the concept seems to appeal to different customers in different parts of the country. In its home markets, El Chico has always been a family restaurant. In the Southeast, where the Mexican segment is still in its youth, El Chico attracts a younger customer. The check average is higher and so is the liquor/food mix.

"In the Southeast, it seems like people are still just discovering Mexican food," he says.

The newest development for El Chico, says Allen, is the introduction of a new radio advertising campaign focusing on freshness and value.

SOUTHWESTERN CONCEPTS. A number of fine-dining restaurants have opened that acquaint customers with the finest of classical Mexican cuisine, which has little in common with the Tex-Mex food popularized by Taco Bell and Chi-Chi's. Among them is San Francisco's Guaymas, owned by Spectrum Foods, which has developed a reputation as extremely expensive and extremely good.

Guaymas is elegant, but refined. Classical Mexican cuisine can come from more humble surroundings as well. San Francisco's La Canasta occupies a space so small that only carryout is available, but lines form to sample such offerings as turkey with mole sauce, made with chocolate and 11 spices.

Larry Cano and Fi sd LeFranc, partners in Vision Restaurants in Corona del Mar, CA, have opened Salud!, a Southwestern-style dinnerhouse serving specials such as *queso fundido* and fish baked in banana leaves, prepared in a *pibil*, or wood-burning oven.

In fact, Southwestern food, which is inspired by Mexican food rather than authentic Mexican cuisine, is where the excitement today seems to be in the upscale part of the segment.

Restaurants such as Kachina in Laguna Beach, FL, opened by former El Torito corporate chef David Wilhelm, are garnering a lot of attention. Wilhelm is earning raves for edible "saddlebags," a corn crepe appetizer filled with honey-roasted duck in a jalapeño-spiked barbecue sauce. Entrees include a filet of beef with chipotle sauce, and swordfish accompanied by a colorful dessert sunset sauce and a salsa of pink grapefruit.

THE FUTURE. The Mexican market segment continues to grow, but success doesn't come easily. As consumers become increasingly more sophisticated about Mexican food, they are demanding better fare. While the large chains are still growing, it is innovative independents and small regional chains that are drawing attention.

On the upscale end, creative chefs are combining classical Mexican ingredients in new ways to create a new cuisine called Southwestern.

All these elements add up to one thing: a vital, challenging segment with many opportunities but also plenty of risk. ■